

ACTION MEMO

April 24, 2014

FOR: Donjette L. Gilmore

Donjette L. Gilmore May 1, 2014

FROM: Stephanie N. Davis

SUBJECT: High Dollar Improper Payments Reports Quarter 1, Fiscal Year 2014

- Suspense: May 1, 2014.
- The Memorandum at **TAB A** to the Department of Defense Office of Inspector General serves as cover to report at **TAB B** and data at **TAB C**.
- When Quarter 1's report is posted to the Comptroller's public website, all prior report postings will be removed, leaving just the most recent report online.
- RECOMMENDATION: Sign the memo of **TAB A**.
- COORDINATION: **TAB D**.

Attachments:

As stated

Prepared by: Stephanie N. Davis, Accounting & Finance Policy, 703-602-0193

Control No. USC000424-14

File No. 304-02.3



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAY 01 2014

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR DEPARTMENT OF
DEFENSE PAYMENTS AND ACCOUNTING OPERATIONS

SUBJECT: High Dollar Improper Payment Report for Quarter 1, Fiscal Year 2014

Attached for your review is the Quarter 1, Fiscal Year 2014 High Dollar Improper Payment Report for the Department of Defense, assembled from data prepared by the Defense Finance and Accounting Service, U.S. Army Corps of Engineers, and Defense Health Agency. This information will be posted to the Office of the Under Secretary of Defense (Comptroller) public website within 15 days of release to you in accordance with Office of Management and Budget Circular A-123, Appendix C, Part III.

Feel free to contact Ms. Sally Beecroft if you have any questions. She can be reached at sally.c.beecroft.civ@mail.mil or (703) 602-0391.

A handwritten signature in cursive script, reading "Donjette L. Gilmore", is positioned above the printed name and title.

Donjette L. Gilmore
Director, Accounting & Finance Policy

Attachments:
High Dollar Improper Payment Report Q1, FY2014

DoD Quarter 1 Fiscal Year 2014 Report on High Dollar Overpayments to Individuals and Entities

HIGH DOLLAR IMPROPER OVERPAYMENTS TO INDIVIDUALS

DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)

Military Retired and Annuitant Pay

The Quarter 1 random review of military retired and annuitants included 300 retired accounts for \$350,000 and 300 annuitant accounts for \$110,000. No high dollar overpayments were identified.

The Quarter 1 review of confirmed deceased retirees included 8,730 cases totaling \$16.5 million and 4,758,000 cases for \$4.1 million in deceased annuitants. Twenty-two deceased retiree debts met the high dollar threshold for \$156,000 in total overpayments. The deceased annuitants' review identified 14 high dollar overpayments for \$96,000. The majority of the noted high dollar overpayments involved payments for more than one month after confirmed date of death (due to late receipt of death certificates). To date, \$44,000 (28 percent) was recovered for Deceased Retired Pay, and \$80,000 (82.5 percent) was recovered for Deceased Annuitant Pay.

The primary reason for Military Retired and Annuitant overpayments is late receipt of death certificate or notification of death. Overpayments for Military Retired and Annuitant totaled \$253,000 in identified debts. For Quarter 1, Fiscal Year (FY) 2014, DFAS' overall improper payment rate was 0.02 percent of \$14.3 billion (\$2.3 million) in total military retired and annuitant pay program payments.

Military Retired and Annuitant Pay – Prevention and Corrective Action

DFAS' control processes to prevent, identify, and reduce overpayments to deceased retirees and annuitants include a series of periodic eligibility notifications, early detection data mining efforts, and partnerships with other federal and state entities. DFAS is proactive, routinely comparing; (a) retired and annuitant payroll master file databases to Social Security Administration "deceased" records (also known as the Death Master File) and (b) records with the Office of Personnel Management deceased files. The file comparisons are also conducted with the Department of Veterans Affairs' cemetery database and with individual states with sizable retiree and annuitant populations (e.g., Texas, California, and Florida). Retirees and annuitants identified as deceased must validate their continued eligibility or their accounts are suspended.

HIGH DOLLAR IMPROPER OVERPAYMENTS TO ENTITIES

DFAS

DFAS' Quarter 1, FY 2014, high dollar improper commercial overpayments totaled \$65.7 million (0.085 percent) out of a total \$77.3 billion. There were 205 high dollar overpayments to entities totaling \$65.7 million with \$63.1 million (96 percent) recovered to date. The primary root causes for these overpayments were technician input errors (104 errors at \$7.4 million), contractor billing errors (45 errors at \$6.8 million) and progress payment under recoupment errors (40 errors at \$43.6 million.) DFAS' input errors include voucher examiner errors, duplicate payment errors and other entitlement errors. The progress payment under recoupment errors resulted in paying more in progress payments than the contractors were entitled to because the proper amounts were not recouped. The contractor billing errors include overbillings, such as incorrect unit price, and billing for the wrong period of performance. The detailed results are included in Attachment 2.

Corrective Actions and Strategies

DFAS uses the Business Activity Monitoring (BAM) tool to help detect improper payments in its major entitlement systems. The BAM tool compares the current invoices received to historical paid files by running various types of integrity logic checks. The logic looks for anomalies in payment data to include potential duplicates, overpayments, and payments to incorrect payees. Anomalies are flagged as potential improper payments and manually reviewed prior to disbursement. DFAS analyzes improper payment data monthly to monitor BAM's effectiveness and develop new strategies to enhance detection logic.

DFAS implemented the Do Not Pay initiative whereby payment files are matched against the Excluded Parties List and the Death Master File to verify eligibility prior to payment. For contractor billing errors, DFAS conducts monthly, bi-annual, and annual analysis of both improper payments and BAM prevented data to identify contractor trends. This information is provided to DFAS payment offices to conduct vendor outreach on proper billing methods and to communicate the risks of improper payments.

Recovery Actions and Strategies

DFAS conducted root cause analysis for the three largest overpayments by contractor and identified the following:

- **Lockheed Martin Corporation** - \$25.1 million in multiple overpayments. DFAS recovered the entire amount. The majority, \$19.3 million was caused by the under recoupment of a progress payment. The material line was split into two lines in a system with a single line dollar threshold. When the line was split, the recoupment was only taken on one line instead of two. Though this condition is rare; additional training was conducted in the Mechanization of Contract Administration System (MOCAS) Entitlement and Front End Analysis sections to help prevent recurrence.
- **Lockheed Martin Missiles and Fire Control** - \$9.4 million in multiple overpayments. DFAS recovered the entire amount. The majority, \$8.1 million, was on one payment and was due to the under recoupment of a progress payment. The under recoupment was caused by an input error. The recoupment was for 90 percent of a \$10.05 million invoice; however the recoupment amount was input as \$905,000 rather than \$9.5 million. The MOCAS Entitlement and Front End Analysis section training to help prevent recurrence of overpayments now includes a second Lead-Technician review for high dollar payments (over \$1 million). The second level review was implemented to prevent, detect, and correct human input errors before any disbursements are made.
- **Raytheon Company** - \$7.6 million in multiple overpayments. DFAS recovered the entire amount. The largest overpayment was \$3.5 million billed and happened because the wrong event was accepted on a performance based contract. DFAS conducts periodic discussions within contracting offices and acceptors communicating the risks of improper billing and acceptance.

DFAS continues to use its Accounts Payable-Accounts Receivable handoff process to identify and collect improper payments. This process provides procedures that ensure proper due diligence is performed including, but not limited to Contract Debt System (CDS) input, demand letter processing, follow-up actions, collection and transfer of the debt to the Debt Management Office. To date, 96 percent of the Quarter 1, FY 2014, overpayments were collected using these procedures.

DFAS' CDS Validation/Reconciliation process ensures proper debt recording to include proper documentation to support the debt. This process is on-going and requires all DFAS sites to review debts at 120 day intervals to ensure the debt is still outstanding and fully supported.

DFAS improved the collection of erroneous payments through the re-engineering of the internal offset process with a Centralized Offset Program. The changes include identifying

invoices to offset internally across DFAS sites at day 60 through 120. Debts not matched to an invoice are referred to the Department of Treasury at day 121 vice the normal 180 day requirement, accelerating Treasury's ability to recover delinquent debts by 60 days.

Root Cause Analysis of BAM prevented improper payments

DFAS identifies and prevents improper payments in five of the DoD's largest commercial payment systems through use of the BAM pre-payment tool. These systems, which accounted for 84 percent of DFAS supported commercial payment dollars during Quarter 1, include MOCAS, Computer/Electronic Accommodations Program (CAPS-Windows), Integrated Accounts Payable System (IAPS), One Pay, and Enterprise Business System (EBS). BAM helped prevent over \$771 million in improper payment dollars during Quarter 1, FY 2014.

In addition to using BAM as a prevention tool, DFAS analyzes improper payments prevented by BAM monthly and bi-annually. The analysis pinpoints common causes at pay office and system levels, and identifies vendor and contract payment and error trends. The results are shared with DFAS payment offices to identify areas for operational improvement and customer outreach.

DFAS is in the process of incorporating voucher examiner, entitlement, and certifier information into the BAM tool in order to identify recurring issues at the employee level. When completed, the added information will be used to generate monthly reports for managers' use in identifying the need for additional training. Estimated Completion Date: Quarter 2, FY 2014.

Root Cause Analysis of Improper Payments

DFAS identifies and monitors the root cause of improper payments in CDS by researching supporting documentation and assigning an assessment code that identifies the improper payment type and reason. Trend analysis is conducted to identify reoccurring errors at pay office, system, vendor, and contract levels. This information is used to identify potential refinements to BAM improper payment detection logic. It is also shared with DFAS payment offices on monthly and annually to help identify areas for operational improvement.

Statistical Sampling of Commercial Payments

DFAS developed and implemented a Commercial Pay statistical sampling and review plan to ensure compliance with IPERA and OMB Circular A-123, Appendix C. The standard operating procedures and review checklist standardize the post pay review processes throughout the DFAS Accounts Payable network to ascertain accuracy of contract and vendor payments and support the Commercial Pay entitlement system reviews.

Quarter 1, FY 2014, random review for commercial pay included 8,081 invoices for \$727.3 million. The review identified 20 invoices with \$32,000 in total overpayments. No overpayments met the high dollar threshold.

U.S. Army Corps of Engineers (USACE)

USACE Quarter 1, FY 2014, overall improper overpayment percentage for vendor/commercial payments was 0.0003 percent (\$1.2 million) out of a total \$4.9 billion disbursed in vendor/commercial payments. For Quarter 1, FY 2014, there were six entities with high dollar overpayments totaling \$1.2 million (98 percent) recovered to date. The primary root causes for these overpayments were contracting input error, contractor billing errors, and voucher examiner errors.

Corrective Actions and Strategies

USACE pre-payment examination requirement is an administrative review conducted just prior to disbursement. The review ensures the voucher contains the necessary substantiation and documentation for lawful and proper payment. The U.S. Army Corps of Engineers Financial Management System (CEFMS) provides internal system standards that adhere to generally accepted accounting principles (GAAP) as well as process controls providing the safeguards to monitor and ensure the requirements of the DoD Financial Management Regulation are met.

USACE Finance Center (UFC) uses data-mining as part of the post-payment and recovery audit processes. The USACE data mining tool uses a CEFMS application to search and identify potential errors such as duplicate, missing, or suspicious invoices, as well as specific types of reoccurring payments. The use of a data mining tool complements the prepayment safeguards already built into CEFMS. Each day the prior day's disbursements are loaded into the U.S. Army Corps of Engineers Enterprise Management Information System (CEEMIS) where a reconciliation program is run. This program checks payment based on 10 potential improper payment scenarios.

USACE samples for its commercial payment reviews are taken randomly from the CEFMS check register file. This file contains all disbursements made by the UFC. The sample size is determined using an estimate of the minimum number of commercial payments expected to be processed in a year (roughly 374,400). The 374,400 universe results in an estimated sample size of 1,537 and a sampling interval of 244. Post-payment audits are conducted monthly to identify incorrect payments and procedural weaknesses. The sampling procedure provides a 95 percent confidence level of plus or minus 2.5 percent.

Recovery Actions and Strategies

USACE conducted detailed root cause analysis on the three largest overpayments for Quarter 1 and identified the following:

- **Cadata Corporation** – \$979,000 overpayment due to contracting input error. The district set the contract up as fast pay, which does not require a receiving report. The vendor billed for the entire amount. The district has modified the contract and it is no longer setup as fast pay. The full amount of the erroneous payment was recovered.
- **Autodesk Inc.** – \$74,000 overpayment due to contractor billing incorrectly. The vendor sent a bill that was intended for another company. The district has been advised to monitor receiving reports prior to payment. The full amount of the overpayment was recovered.
- **JPMCC 005 CIBC13 Orlandville Offices LLC**– \$50,000 overpayment due to voucher examiner error. The lease was not updated to ensure that the correct vendor was paid. The payment was sent to the wrong vendor. The improper payment was recouped and sent to the correct vendor.

USACE continues to use multiple processes for the recognition and collection of improper payments. The processes ensure that proper due diligence is performed. Processes include, but are not limited to, initiating a demand letter for collection, collection and transfer of the debt to the Debt Management Office, the Treasury Offset Program, and various other follow-up actions.

USACE continues to work with their customers to improve the unsolicited refund process through improved identification and classification of the root causes of improper payments. Each of these voluntary refunds is researched to find out what caused the improper payments and to determine the appropriate corrective actions taken.

Defense Health Agency (DHA)

DHA had no high dollar overpayments to report for Quarter 1, FY 2014. An analysis of quarterly audit findings for all DHA purchased care contracts determined that there were no high dollar overpayment errors which met the reporting requirements defined in OMB Circular A-123, Appendix C, Part III.